

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
EXTERNALLY MANAGED STRATEGIES**

March 17, 2008

This Policy is effective immediately upon adoption.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for Global Equity Externally Managed Strategies ("Program"), including:

- Domestic Active Equity
- Domestic Enhanced Indexing Equity
- Domestic Relaxed Long-Only Equity
- International Active Equity
- International Enhanced Indexing Equity

The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the Program. Additionally, use of this Policy assures sufficient flexibility in controlling investment risks and returns associated with these segments of the global capital markets.

II. STRATEGIC OBJECTIVE

Capturing returns of domestic and international equity markets while diversifying risk is the strategic objective for the Program.

The Program shall be managed to accomplish the following:

- A. Diversify CalPERS' overall Equity Program by complementing the Passive Domestic and Passive International Equity Programs;
- B. Enhance the expected return of CalPERS' investment program; and
- C. Hedge against active member (pre-retirement) liabilities.

III. RESPONSIBILITIES

- A. CalPERS Investment Staff (“Staff”) is responsible for the following:
1. All aspects of portfolio oversight including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
 2. Reporting to the Committee at least annually about the performance of the Program.
 3. Monitoring the implementation of, and compliance with, the Policy and all external managers’ guidelines. Staff shall report material concerns, problems and changes relating to any external manager at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.
 4. Recommending action concerning outside money management firm(s) (“Managers”) retained under contract to implement the Program.
- B. The General Pension Consultant (“Consultant”) is responsible for monitoring, evaluating, and reporting periodically, to the Committee, on the performance of the Program and each Manager relative to the benchmark and Policy, and other pertinent issues as deemed appropriate.
- C. The External Managers (“Manager”) are responsible for all aspects of portfolio management as set forth in each Manager’s contract with CalPERS and shall fulfill the following duties:
1. Communicate with Staff, as needed, regarding investment strategies and investment results.
 2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
 3. Cooperate fully with CalPERS’ Staff, [Custodian](#), and General Pension Consultant concerning requests for information.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

Please see attachments for the individual strategies.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Approaches

1. Please see attachments for descriptions of the individual strategies.
2. The Program shall be implemented through the retention of [external managers](#). External manager selection shall occur in accordance with Section V.B. of this Policy.
3. CalPERS shall continually review the viability of the program, conducting a formal review at least every five (5) years.

B. External Manager Selection

1. Please see attachments for the criteria used for the individual strategies.
2. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.
3. CalPERS shall select the managers in accordance with the applicable California laws and regulations, and CalPERS policy.

C. Investment Parameters

The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark, and performance objectives.

Implementation of this Program shall comply at all times with CalPERS' investment policies including, but not limited to, the following parameters:

1. Statement of Investment Policy for Derivatives - External Money Managers;
2. Proxy Voting Policies;
3. Monitoring Externally Managed Portfolios; and
4. Manager-specific Investment Management Guidelines.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' Custodian.

VII. GLOSSARY OF TERMS

Key words used in the policy are defined in CalPERS' Master Glossary of Terms.

Attachments

Attachment A – Domestic Active Equity

Attachment B – Domestic Enhanced Indexing Equity

Attachment C – Domestic Relaxed Long-Only Equity

Attachment D – International Active Equity

Attachment E – International Enhanced Indexing Equity

Approved by the Policy Subcommittee: March 17, 2008

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

FOR

ACTIVE DOMESTIC ACTIVE EQUITIES - EXTERNALLY MANAGED ATTACHMENT A

February 14, 2005

~~This Policy is effective immediately upon adoption and supersedes all previous externally managed active domestic equities policies.~~

I. PURPOSE

~~This document sets forth the investment policy ("the Policy") for the Externally Managed Active Domestic Equities Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the U.S. capital markets.~~

II. STRATEGIC OBJECTIVE

~~Capturing returns of domestic equity markets while diversifying risk is the strategic objective for the Program.~~

~~The Program shall be managed to accomplish the following:~~

~~A. Diversify the System's overall Equity Program by complementing the Passive Domestic Equity Program;~~

~~B. Enhance the expected return of the System's investment program;~~

~~C. Hedge against active member (pre-retirement) liabilities; and~~

~~D. Consider solely the interests of the System's participants and their beneficiaries in accordance with California State Law. [This language is contained in the Total Fund Statement of Investment Policy.]~~

III. RESPONSIBILITIES AND DELEGATIONS

~~A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Committee~~

~~delegates the responsibility for administering the Program to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).~~

~~B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:~~

- ~~1. Developing and recommending the Policy to the Investment Committee.~~
- ~~2. Developing and maintaining a procedures manual, subject to periodic review and updating, that outlines Staff operational procedures used in implementing this Policy.~~
- ~~3. Implementing and adhering to the Policy.~~
- ~~4. Recommending action concerning outside money management firm(s) ("Managers") retained under contract to implement the Program. The Staff shall make recommendations in accordance with the Manager Monitoring – Externally Managed Policy, regarding changes in the Manager's contractual guidelines, and any other aspect Staff considers pertinent.~~
- ~~5. Reporting to the Investment Committee, as needed, about the performance of the Program. The Staff shall monitor the implementation of, and compliance with, the Policy. The Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. Such reports to the Investment Committee shall include explanations of the violations and appropriate recommendations for corrective action.~~

~~C. **Managers** are responsible for all aspects of portfolio management as set forth in Manager's contract with the System and shall fulfill the following duties:~~

- ~~1. Communicate with the System's Staff, as needed, regarding investment strategies and results. The Investment Committee and Staff expect Managers to monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.~~
- ~~2. Cooperate fully with the System's Staff, Custodian, and General Pension Consultant concerning requests for information.~~

~~D. The **General Pension Consultant** is responsible for monitoring and evaluating each Manager's performance relative to the benchmark and Policy. The General Pension Consultant shall report to the Investment Committee on a quarterly basis, in accordance with its contract.~~

IV.I. PERFORMANCE OBJECTIVE AND BENCHMARK

The Active Domestic Equity Program encompasses the Externally Managed Domestic Equity Strategies (Domestic Active Equity, Domestic Enhanced Indexing Equity, and Domestic Relaxed Long-Only Equity) and the Internally Managed Dynamic Completion Fund (the “DCF”). The Program is expected to outperform the custom Wilshire 2500 Index, net of fees.

Within the Program, Managers or portfolios or both are expected to achieve performance objectives as stated in their Investment Management Guidelines. ~~CalPERS The System shall measure individual Managers against appropriate style benchmarks. The aggregate of the active managers and the Dynamic Completion Fund shall be measured against the System’s custom Wilshire 2500 Index.~~

V.II. INVESTMENT APPROACHES AND PARAMETERS

A. Approaches

1.Active domestic equity strategies shall be identified based upon their ability to add value above a style-specific benchmark on a risk-adjusted basis. The DCF will be used to attempt to neutralize any style bias within the Active Domestic Equity Program.

~~1.The Program shall be implemented through the retention of external managers. External manager selection shall occur in accordance with Section V.B. of this Policy.~~

~~2.The System shall continually review the viability of the program, conducting a formal review at least every five (5) years.~~

B. External Manager Selection

1.The ~~System~~CalPERS shall retain managers that have recognized expertise in the analysis and selection of U.S. equity securities or approved derivatives.

~~2.The System shall select the managers in accordance with the Contract and Procurement Policy.~~

C. Investment Parameters

~~The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures,~~

~~benchmark, and performance objectives.~~

~~Implementation of this Program shall comply at all times with the System's investment policies including, but not limited to, the following parameters:~~

~~1.Statement of Investment Policy for Derivatives – External Money Managers;~~

~~2.Proxy Voting Policies;~~

~~3.Manager Monitoring – Externally Managed Policy; and~~

~~4.Manager-specific Investment Management Guidelines.~~

~~IV.BENCHMARKS~~

~~The System shall measure individual Managers against appropriate style benchmarks. The aggregate of the active managers and the Dynamic Completion Fund shall be measured against the System's custom Wilshire 2500 Index.~~

~~V.GENERAL~~

~~Investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on market value as recorded by the System's Custodian.~~

~~VI.GLOSSARY OF TERMS~~

~~Definitions for key words used in this policy are located in the Equity Glossary of Terms which is included in the System's Master Glossary of Terms.~~

Approved by the Policy Subcommittee: August 11, 1999

Adopted by the Investment Committee: October 18, 1999

Revised by the Policy Subcommittee: December 10, 2004

Adopted by the Investment Committee: February 14, 2005

Approved by the Policy Subcommittee: March 17, 2008

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

FOR

ATTACHMENT B

**DOMESTIC ENHANCED INDEXING EQUITY STRATEGY – EXTERNALLY
MANAGED**

February 14, 2005

~~This Policy is effective immediately upon adoption.~~

I. PURPOSE

~~This document sets forth the investment policy ("the Policy") for the Externally Managed Domestic Enhanced Indexing Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the U.S. capital markets.~~

II. STRATEGIC OBJECTIVE

~~Providing consistent excess returns above domestic equity markets while controlling risk is the strategic objective for the Program.~~

~~The Program shall be managed to accomplish the following:~~

- ~~A. Diversify the System's overall Equity Program by complementing the Passive and Active Domestic Equity Programs;~~
- ~~B. Enhance the expected return of the System's investment program;~~
- ~~C. Hedge against active member (pre-retirement) liabilities; and~~
- ~~D. Consider solely the interests of the System's participants and their beneficiaries in accordance with California State Law. [This language is contained in the Total Fund Statement of Investment Policy.]~~

III. RESPONSIBILITIES AND DELEGATIONS

- ~~A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Committee~~

~~delegates the responsibility for administering the Program to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).~~

~~B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:~~

- ~~1. Developing and recommending the Policy to the Investment Committee.~~
- ~~2. Developing and maintaining a procedures manual, subject to periodic review and updating, that outlines Staff operational procedures used in implementing this Policy.~~
- ~~3. Implementing and adhering to the Policy.~~
- ~~4. Recommending action concerning outside money management firm(s) ("Managers") retained under contract to implement the Program. The Staff shall make recommendations in accordance with the Manager Monitoring – Externally Managed Policy, regarding changes in the Manager's contractual guidelines, and any other aspect Staff considers pertinent.~~
- ~~5. Reporting to the Investment Committee, as needed, about the performance of the Program. The Staff shall monitor the implementation of, and compliance with, the Policy. The Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. Such reports to the Investment Committee shall include explanations of the violations and appropriate recommendations for corrective action.~~

~~C. **Managers** are responsible for all aspects of portfolio management as set forth in Manager's contract with the System and shall fulfill the following duties:~~

- ~~1. Communicate with the System's Staff, as needed, regarding investment strategies and results. The Investment Committee and Staff expect Managers to monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.~~
- ~~2. Cooperate fully with the System's Staff, Custodian, and General Pension Consultant concerning requests for information.~~

~~E. The **General Pension Consultant** is responsible for monitoring and evaluating each Manager's performance relative to the benchmark and Policy. The General Pension Consultant shall report to the Investment Committee on a quarterly basis, in accordance with its contract.~~

IV.I. PERFORMANCE OBJECTIVE AND BENCHMARK

The Active Domestic Equity Program encompasses the Externally Managed Domestic Equity Strategies (Domestic Active Equity, Domestic Enhanced Indexing Equity, and Domestic Relaxed Long-Only Equity) and the Internally Managed Dynamic Completion Fund (“DCF”). The Program is expected to outperform the custom Wilshire 2500 Index, net of fees.

Within the Program, Managers or portfolios or both are expected to achieve performance objectives as stated in their Investment Management Guidelines. CalPERS shall measure individual Managers against appropriate style benchmarks. The Program shall use an appropriate US large capitalization core equity index for a benchmark and shall produce an excess return, net of fees and costs, of 1.00% per annum with an annual tracking of 2.00%-2.50%. The Program shall contribute positively to the excess return results of the Domestic Equity Program by exceeding the return of the CalPERS Custom Wilshire 2500 Index.

V.II. INVESTMENT APPROACHES AND PARAMETERS

A. Approaches

4. Acceptable investment approaches may include [equity-based](#) and [synthetic strategies](#).

a.1. Enhanced index domestic *equity-based* strategies shall be identified based upon their ability to add value above an appropriate benchmark on a risk-controlled basis. The managers are expected to add consistent alpha above the passive index by controlling tracking error at a level that is below traditional active management. The DCF will be used to attempt to neutralize any [style bias](#).

b.2. Enhanced index domestic *synthetic* strategies shall be identified based upon their ability to add value above an appropriate benchmark on a risk-adjusted basis. Synthetic strategies shall be managed to maximize return and minimize risk through the use of equity index futures, ~~and/or~~ swaps or both for underlying equity exposure and managing fixed income securities to add excess return. The fixed income portion will be managed by the selection and allocation across sectors, maturities, durations, credits, and approved [derivative](#) instruments. In addition, the managers will consider macro and relevant micro-economic factors including, but not limited to, economic growth, inflation, monetary and fiscal policy, the credit risk of market and issuer, and risk-adjusted yields.

This program shall be invested in investment grade securities (securities rated no lower than Baa by Moody's Investor Service, or BBB by Standard & Poor's) or their equivalent; unless specified otherwise in the manager specific Investment Manager Guidelines, up to a maximum of 10% in below investment grade securities (securities rated no lower than B by Standard & Poor's).

~~2.The Program shall be implemented through the retention of external managers. External manager selection shall occur in accordance with Section V.B. of this Policy.~~

~~3.The System shall continually review the viability of the program, conducting a formal review at least every five (5) years.~~

D.B. External Manager Selection

~~1. The System CalPERS shall retain *equity-based* managers that have recognized expertise in the analysis and selection of U.S. equity securities or approved derivatives. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.~~

~~2. The System CalPERS shall retain *synthetic* managers with recognized expertise in the analysis and selection of fixed income securities, credit analysis, approved derivatives, and the ability to efficiently and effectively roll equity index futures. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.~~

~~3.The System shall select the managers in accordance with the Contract and Procurement Policy.~~

E.Investment Parameters

~~The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark, and performance objectives.~~

~~Implementation of this Program shall comply at all times with the System's investment policies including, but not limited to, the following parameters:~~

~~1.Statement of Derivatives Investment Policy for External Money Managers;~~

~~2.Proxy Voting Policies;~~

~~3. Manager Monitoring – Externally Managed Policy; and~~

~~4. Manager-specific Investment Management Guidelines.~~

~~VI. GENERAL~~

~~Investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on market value as recorded by the System's Custodian.~~

~~VII. GLOSSARY OF TERMS~~

~~Definitions for key words used in this policy are located in the Equity Glossary of Terms which is included in the System's Master Glossary of Terms.~~

Approved by the Policy Subcommittee: December 10, 2004

Adopted by the Investment Committee: February 14, 2005

Approved by the Policy Subcommittee: March 17, 2008

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

FOR

ATTACHMENT C

**DOMESTIC RELAXED LONG-ONLY DOMESTIC EQUITY STRATEGY-
EXTERNALLY MANAGED**

November 13, 2006

~~This Policy is effective immediately upon adoption.~~

I. PURPOSE

~~This document sets forth the investment policy ("the Policy") for the Relaxed Long-only Domestic Equity Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the U.S. capital markets.~~

II. STRATEGIC OBJECTIVE

~~Capturing returns of domestic equity markets while diversifying risk is the strategic objective for the Program.~~

~~The Program shall be managed to accomplish the following:~~

- ~~A. Diversify the System's overall Equity Program by complementing the Passive Domestic Equity Program;~~
- ~~B. Enhance the expected return of the System's investment program;~~
- ~~C. Hedge against active member (pre-retirement) liabilities; and~~
- ~~D. Consider solely the interests of the System's participants and their beneficiaries in accordance with California State Law. [This language is contained in the Total Fund Statement of Investment Policy.]~~

III. RESPONSIBILITIES AND DELEGATIONS

- ~~A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Committee delegates the responsibility for administering the Program to the~~

Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).

~~B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:~~

- ~~1. Developing and recommending the Policy to the Investment Committee.~~
- ~~2. Developing and maintaining a procedures manual, subject to periodic review and updating, that outlines Staff operational procedures used in implementing this Policy.~~
- ~~3. Implementing and adhering to the Policy.~~
- ~~4. Recommending action concerning outside money management firm(s) ("Managers") retained under contract to implement the Program. The Staff shall make recommendations in accordance with the Manager Monitoring - Externally Managed Policy, regarding changes in the Manager's contractual guidelines, and any other aspect Staff considers pertinent.~~
- ~~5. Reporting to the Investment Committee, as needed, about the performance of the Program. The Staff shall monitor the implementation of, and compliance with, the Policy. The Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. Such reports to the Investment Committee shall include explanations of the violations and appropriate recommendations for corrective action.~~

~~C. **Managers** are responsible for all aspects of portfolio management as set forth in Manager's contract with the System and shall fulfill the following duties:~~

- ~~1. Communicate with the System's Staff, as needed, regarding investment strategies and results. The Investment Committee and Staff expect Managers to monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.~~
- ~~2. Cooperate fully with the System's Staff, Custodian, and General Pension Consultant concerning requests for information.~~

~~F. The **General Pension Consultant** is responsible for monitoring and evaluating each Manager's performance relative to the benchmark and Policy. The General Pension Consultant shall report to the Investment Committee on a quarterly basis, in accordance with its contract.~~

IV.I. PERFORMANCE OBJECTIVE AND BENCHMARK

The Active Domestic Equity Program encompasses the Externally Managed Domestic Equity Strategies (Domestic Active Equity, Domestic Enhanced Indexing Equity, and Domestic Relaxed Long-Only Equity) and the Internally Managed Dynamic Completion Fund (“DCF”). The Program is expected to outperform the custom Wilshire 2500 Index, net of fees.

Within the Program, Managers or portfolios or both are expected to achieve performance objectives as stated in their Investment Management Guidelines. CalPERS shall measure individual Managers against appropriate style benchmarks.

~~The Relaxed Long-only Domestic Equity Program allows managers to underweight securities by more than the benchmark weight. The Program involves the short selling of securities to a maximum of 35% of the portfolio while maintaining a Beta at or near 1.0. The Program shall use the appropriate U.S. Large Capitalization indexes for benchmarks with an expected excess return of 2.0 to 3.0%, net of fees, and an annual tracking error of 4.0 to 6.0%. Within the Program, managers are expected to achieve performance objectives as stated in their Investment Management Guidelines. The Program shall contribute positively to the excess returns of the Domestic Equity Program. This program, when combined with the Domestic Enhanced Index Program, the Active Domestic Equities Program, and the Dynamic Completion Fund, shall exceed the return of the CalPERS Custom Wilshire 2500 Index.~~

V.II. INVESTMENT APPROACHES AND PARAMETERS

A. Approaches

1. The Relaxed Long-only Domestic Equity Program allows managers to underweight securities by more than the benchmark weight. The Program involves the [short selling](#) of securities to a maximum of 35% of the portfolio while maintaining a [Beta](#) at or near 1.0.
2. Relaxed Long-only Domestic Equity strategies shall be identified based upon their ability to add value above the appropriate benchmark on a risk-adjusted basis. The managers are expected to add consistent alpha above the passive index while controlling tracking error. The ~~DCF Dynamic Completion Fund~~ will be used to attempt to neutralize any [style bias](#).
2. ~~The Program shall be implemented through the retention of external managers. External manager selection shall occur in accordance with Section V.B. of this Policy.~~

~~3.The System shall continually review the viability of the program, conducting a formal review at least every five (5) years.~~

B. External Manager Selection

~~1.The SystemCalPERS shall retain managers that have recognized expertise in the analysis and selection of U.S. equity securities or approved derivatives and have a minimum of three years experience shorting stocks. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.~~

~~2.The System shall select the managers in accordance with the Contract and Procurement Policy.~~

C.Investment Paramaters

~~The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark, and performance objectives.~~

~~Implementation of this Program shall comply at all times with the System's investment policies including, but not limited to, the following parameters:~~

~~1.Statement of Investment Policy for Derivatives — External Money Managers;~~

~~2.Proxy Voting Policies;~~

~~3.Manager Monitoring — Externally Managed Policy; and~~

~~4.Manager-specific Investment Management Guidelines.~~

VI.BENCHMARKS

~~The System shall measure individual Managers against the appropriate benchmarks. The aggregate of the active managers and the Dynamic Completion Fund shall be measured against the System's custom Wilshire 2500 Index.~~

VII.GENERAL

~~Investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on market value as recorded by the System's Custodian.~~

VIII. GLOSSARY OF TERMS

Definitions for key words used in this policy are located in the Equity Glossary of Terms which is included in the System's Master Glossary of Terms.

Approved by the Policy Subcommittee: October 16, 2006

Adopted by the Investment Committee: November 13, 2006

Approved by the Policy Subcommittee: March 17, 2008

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

FOR

ATTACHMENT D

ACTIVE INTERNATIONAL ACTIVE EQUITIES — EXTERNALLY MANAGED

February 14, 2005

~~This Policy is effective immediately upon adoption and supersedes all previous externally managed active international equities policies.~~

I. PURPOSE

~~This document sets forth the investment policy ("the Policy") for the Externally Managed Active International Equities Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and capturing returns associated with this segment of the global capital markets.~~

II. STRATEGIC OBJECTIVES

~~Capturing returns of international equity markets while diversifying risk is the strategic objective for the Program.~~

~~The Program shall be managed to accomplish the following:~~

- ~~A. Diversify the System's overall Equity Program;~~
- ~~B. Enhance the expected return of the System's Equity Program;~~
- ~~C. Hedge against active member (pre-retirement) liabilities; and~~
- ~~D. Consider solely the interests of the System's participants and their beneficiaries in accordance with California State Law. [This language is contained in the Total Fund Statement of Investment Policy.]~~

III. RESPONSIBILITIES AND DELEGATIONS

- ~~A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Investment~~

~~Committee delegates the responsibility for administering the Program to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).~~

~~B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:~~

- ~~1. Developing and recommending the Policy to the Investment Committee.~~
- ~~2. Developing and maintaining a procedures manual, subject to periodic review and updating, outlining Staff operational procedures used in implementing this Policy.~~
- ~~3. Implementing and adhering to the Policy.~~
- ~~6. Recommending action concerning outside money management firm(s) ("Managers") retained under contract to implement the Program. The Staff shall make recommendations in accordance with the Manager Monitoring – Externally Managed Policy, regarding changes in the Manager's contractual guidelines, and any other aspect Staff considers pertinent.~~
- ~~5. Reporting to the Investment Committee, as needed, about the performance of the Program. The Staff shall monitor the implementation of, and compliance with, the Policy. The Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. Reports made by the Staff to the Investment Committee shall include explanations of the violations and appropriate recommendations for corrective action.~~

~~C. **Managers** are responsible for all aspects of portfolio management as set forth in each manager's contract with the System and shall fulfill the following duties:~~

- ~~1. Communicate with the Staff, as needed, regarding investment strategy and investment results. The Investment Committee and Staff expect the Managers to monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.~~
- ~~2. Cooperate fully with the System's Staff, Custodian, and General Pension Consultant concerning requests for information.~~

~~D. The **General Pension Consultant** is responsible for monitoring and evaluating the Managers' performance relative to the benchmark and Policy. The General Pension Consultant shall report to the Investment Committee on a quarterly basis, in accordance with its contract.~~

IV.I. PERFORMANCE OBJECTIVE AND BENCHMARK

The External International Equity Program includes International Active Equity and International Enhanced Indexing Equity strategies. The International Active Equity strategy may include the following mandates: (1) All-World ex-U.S.; (2) Europe only; (3) Pacific Basin only; (4) Developed Markets only; and (5) Emerging Markets only. The Program is expected to outperform the CalPERS FTSE All-World ex U.S., net of fees.

Within the Program, Managers or portfolios or both are expected to achieve performance objectives as stated in their Investment Management Guidelines. CalPERS shall measure individual Managers against the appropriate CalPERS Financial Times Stock Exchange (FTSE) benchmark, which may be customized. The Active International Equity Program is expected to outperform the benchmark by at least two (2) percentage points annualized throughout a normal market cycle of three to five years, net of fees.

V.II. INVESTMENT APPROACHES AND PARAMETERS

A. Approaches

1.The Active International Equity Portfolio shall be invested to maximize return, within acceptable risk parameters, through the selection of publicly traded equity securities available in international equity markets.

2.The Program shall be implemented through the retention of external managers. External manager selection shall occur in accordance with Section V.B. of this Policy.

B. External Manager Selection

1.The ~~System~~CalPERS shall retain managers with recognized expertise in the analysis and selection of international equity securities or approved derivatives. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.

2.The System shall select the managers in accordance with the Contract and Procurement Policy.

C. Investment Parameters

The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark and performance objectives.

~~Implementation of this Program shall comply at all times with the applicable System's investment policies including, but not limited to, the following:~~

~~1. Permissible Equity for Emerging Equity Markets policy;~~

~~2. Foreign Exchange Guidelines;~~

~~3. Statement of Investment Policy for Derivatives – External Money Managers;~~

~~4. Proxy Voting Policies;~~

~~5. Manager Monitoring – Externally Managed Policy; and~~

~~6. Manager-specific Investment Management Guidelines.~~

VI. BENCHMARKS

~~The benchmark for this Program utilizes the CalPERS Financial Times Stock Exchange (FTSE) customized indices. The appropriate FTSE index is applied to each manager depending on its investment mandate.~~

VII. GENERAL

~~Investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on market value as recorded by the System's Custodian.~~

VIII. GLOSSARY OF TERMS

~~Definitions for key words used in this policy are located in the Equity Glossary of Terms which is included in the System's Master Glossary of Terms.~~

Approved by the Policy Subcommittee: August 11, 1999
Adopted by the Investment Committee: October 18, 1999
Revised by the Policy Subcommittee: December 10, 2004
Adopted by the Investment Committee: February 14, 2005
Approved by the Policy Subcommittee: March 17, 2008

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

FOR

ATTACHMENT E

**INTERNATIONAL ENHANCED INDEXING EQUITY STRATEGY – EXTERNALLY
MANAGED**

February 14, 2006

This Policy is effective immediately upon adoption.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for the Externally Managed International Enhanced Indexing Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the international capital markets.

II. STRATEGIC OBJECTIVE

Providing consistent excess returns above international equity markets while controlling risk is the strategic objective for the Program.

The Program shall be managed to accomplish the following:

- A. Diversify the System's overall Equity Program by complementing the Passive and Active International Equity Programs;
- B. Enhance the expected return of the System's investment program;
- C. Hedge against active member (pre-retirement) liabilities; and
- D. Consider solely the interests of the System's participants and their beneficiaries in accordance with California State Law. [This language is contained in the Total Fund Statement of Investment Policy.]

III. RESPONSIBILITIES AND DELEGATIONS

- A. The ~~System's Investment Committee~~ ("the Investment Committee") is responsible for approving and amending the Policy. The Committee

~~delegates the responsibility for administering the Program to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).~~

~~B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:~~

- ~~1. Developing and recommending the Policy to the Investment Committee.~~
- ~~2. Developing and maintaining a procedures manual, subject to periodic review and updating, that outlines Staff operational procedures used in implementing this Policy.~~
- ~~3. Implementing and adhering to the Policy.~~
- ~~4. Recommending action concerning outside money management firm(s) ("Managers") retained under contract to implement the Program. The Staff shall make recommendations in accordance with the Manager Monitoring – Externally Managed Policy, regarding changes in the Manager's contractual guidelines, and any other aspect Staff considers pertinent.~~
- ~~5. Reporting to the Investment Committee, as needed, about the performance of the Program. The Staff shall monitor the implementation of, and compliance with, the Policy. The Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. Such reports to the Investment Committee shall include explanations of the violations and appropriate recommendations for corrective action.~~

~~C. **Managers** are responsible for all aspects of portfolio management as set forth in Manager's contract with the System and shall fulfill the following duties:~~

- ~~1. Communicate with the System's Staff, as needed, regarding investment strategies and results. The Investment Committee and Staff expect Managers to monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.~~
- ~~2. Cooperate fully with the System's Staff, Custodian, and General Pension Consultant concerning requests for information.~~

~~G. The **General Pension Consultant** is responsible for monitoring and evaluating each Manager's performance relative to the benchmark and Policy. The General Pension Consultant shall report to the Investment Committee on a quarterly basis, in accordance with its contract.~~

IV.I. PERFORMANCE OBJECTIVE AND BENCHMARK

The External International Equity Program includes International Active Equity and International Enhanced Indexing Equity strategies. The International Enhanced Indexing Equity strategy may include the following mandates: (1) All-World ex-U.S.; (2) Europe only; (3) Pacific Basin only; (4) Developed Markets only; and (5) Emerging Markets only. The Program is expected to outperform the CalPERS FTSE All-World ex U.S., net of fees.

Within the Program, Managers or portfolios or both are expected to achieve performance objectives as stated in their Investment Management Guidelines. CalPERS shall measure individual Managers against the appropriate CalPERS Financial Times Stock Exchange (FTSE) benchmark, which may be customized. The Program shall use an appropriate international large capitalization core equity index for a benchmark and shall produce an excess return, net of fees and costs, of 1.00% per annum with an annual tracking of 2.00%-2.50%. The Program shall contribute positively to the excess return results of the International Equity Program by exceeding the return of the CalPERS Custom FTSE Developed World Ex- U.S. Index.

V.II. INVESTMENT APPROACHES AND PARAMETERS

A. Approaches

1. Acceptable investment approaches shall include equity-based strategies. Enhanced index international equity-based strategies shall be selected for their ability to consistently add value above an appropriate benchmark on a risk-controlled basis, defined as having a tracking error that is below traditional active management.

2.The Program shall be implemented through the retention of external managers. External manager selection shall occur in accordance with Section V.B. of this Policy.

3.The System shall continually review the viability of the program, conducting a formal review at least every five (5) years.

B. External Manager Selection

1.The System CalPERS shall retain equity-based managers that have recognized expertise in the analysis and selection of international equity securities or approved derivatives. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.

~~2.The System shall select the managers in accordance with the Contract and Procurement Policy.~~

~~C.Investment Parameters~~

~~The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark, and performance objectives.~~

~~Implementation of this Program shall comply at all times with the System's investment policies including, but not limited to, the following parameters:~~

~~1.Statement of Derivatives Investment Policy for External Money Managers;~~

~~2.Proxy Voting Policies;~~

~~3.Manager Monitoring – Externally Managed Policy; and~~

~~4.Manager-specific Investment Management Guidelines.~~

~~VI.GENERAL~~

~~Investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on market value as recorded by the System's Custodian.~~

~~VII.GLOSSARY OF TERMS~~

~~Definitions for key words used in this policy are located in the Equities Glossary of Terms which is included in the System's Master Glossary of Terms.~~

Approved by the Policy Subcommittee: December 9, 2005

Adopted by the Investment Committee: February 14, 2006

Approved by the Policy Subcommittee: March 17, 2008

Asset Class Glossary: Equities

Policy: ~~Externally Managed Strategies Active Domestic Equities - Externally Managed~~

March 17, 2008

CalPERS Custom Dow Jones Wilshire 2500 Index

The Dow Jones Wilshire 2500 Index, excluding ~~Real Estate Investment Trusts (REITs)~~ and tobacco stocks, and with dividends reinvested. The standard Dow Jones Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, ~~including~~ ~~excluding~~ Real Estate Investment Trusts and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Derivative

An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Dynamic Completion Fund

A custom portfolio ~~custom~~-designed to control the capitalization or style misfit present in a plan sponsor's investment program.

External Manager

An outside money management firm retained under contract by CalPERS.

Style Benchmark

A custom benchmark composed of individual securities or a combination of published benchmarks with returns closely tracking an individual manager's returns. Style benchmarks help determine what portion of a manager's performance can be explained by its style and what portion can be attributed to stock selection.

Style Bias

The difference between an aggregate or individual manager benchmark and the target.

Asset Class Glossary: Equities

Policy: ~~Active International Equities - Externally Managed~~

CalPERS Financial Times Stock Exchange All World, ex-US, ex-Tobacco

The benchmark for the international equity asset class. The benchmark is

created by Financial Times and reflects specific customizations, such as the exclusion of tobacco stocks as identified by the Investor Responsibility Research Center. The benchmark can be broken down into its underlying countries.

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Derivative

An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Emerging Market

A market classified by FTSE as an emerging market based on an assessment of World Bank gross national income per capita, as well as factors related to the market and regulatory environment, custody and settlement, trading, development of a derivatives market and size of the country's stock market. Emerging Equity Markets are distinguished from: (1) Developed Markets which are markets domiciled in high-income countries, as defined by the World Bank, that most investors consider to have a well-developed operating and regulatory structure for its capital markets. These markets are included in the FTSE Benchmark Classification as Developed Markets. (2) Frontier Markets which are markets domiciled in low-income countries, as defined by the World Bank, whose capital market structure and regulatory mechanisms are not developed enough to be included in Emerging Markets. These are markets that are investable but not classified by FTSE as Developed or Emerging Markets. (3) Uninvestable Markets which are those markets that are not classified by FTSE as Developed, Emerging, or Frontier Markets. These markets generally lack a convertible currency and do not allow for investment by non-residents.

~~A low- to middle-income country, as defined by the World Bank, whose capital market structure and regulatory mechanisms are not as mature as those in developed markets. In order to be considered appropriate for institutional investors, an emerging market must have a functional stock exchange or very active over-the-counter market, securities available to foreign investors, and a convertible currency.~~

External Manager

~~An outside money management firm retained under contract by CalPERS.~~

Financial Times Stock Exchange (FTSE)

The index publisher that produces the Custom FTSE All World ex-US Index for CalPERS the System. FTSE is partially owned by the London Stock Exchange and Financial Times.

Asset Class Glossary: Equities
Policy: Domestic Enhanced Index Strategy - Externally Managed

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Derivative

An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Equity Based Strategy

Combination of active stock selection with risk mechanism designed to minimize tracking error relative to the benchmark. Seek to add value through minor variances relative to the market in sector/industry weightings, style (growth/value) tilts or stock weightings. Key inputs into the process come from either analysts' fundamental research or quantitative models.

External Manager

An outside money management firm retained under contract by CalPERS.

Style Bias

The difference between an aggregate or individual manager benchmark and the target.

Synthetic Strategy

Combination of obtaining market exposure via futures contracts or swaps and enhancing return through the management of the underlying cash portfolio. The market exposure is achieved through a long S&P 500 futures position and the remaining capital is invested in money market instruments with a maturity of 90 days or longer that have greater duration or credit risk.

Asset Class Glossary: Equities
Policy: International Enhanced Index Strategy - Externally Managed

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Equity Based Strategy

Combination of active stock selection with risk mechanism designed to minimize tracking error relative to the benchmark. Seek to add value through minor variances relative to the market in sector/industry weightings, style (growth/value) tilts or stock weightings. Key inputs into the process come from either analysts' fundamental research or quantitative models.

External Manager

An outside money management firm retained under contract by CalPERS.

Asset Class Glossary: Equities

Policy: Relaxed Long-only Domestic Equity Strategy – Externally Managed

Beta

A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole

CalPERS Custom Wilshire 2500 Index

The Wilshire 2500 Index, excluding Real Estate Investment Trusts (REITs) and tobacco stocks, and with dividends reinvested. The Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, excluding REITs and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S. headquartered equity securities with readily available price data.

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Dynamic Completion Fund

A portfolio custom designed to control the misfit present in a plan sponsor's investment program.

External Manager

An outside money management firm retained under contract by CalPERS.

Short Selling

Selling securities that are not owned and buying them back later to take advantage of an anticipated decline in price.

Tracking Error

The annualized standard deviation of the difference between the total return of the portfolio and the total return of the benchmark. The term tracking error is frequently used to describe return deviation, the total return of a portfolio, minus the total return of a benchmark index.